Richelieu Hardware Ltd. Annual Report 2002

PRESENT EVERYWHERE

Annual General Meeting of Shareholders — Tuesday, March 25, 2003, at 10:30 a.m.
Omni Mont-Royal Hotel, Seasons B Room, 1050 Sherbrooke Street West, Montreal, Quebec

At the core of our everyday lives ▪
Present everywhere with its thousands of products which, obvious or concealed, are a key component of layouts, furnishings and a host of residential and commercial renovations.

Contents

Specialty Market Leader

Positioning • **Distribution** — Canada's leading importer and distributor of specialty hardware and complementary products • **Manufacturing** — Veneer sheets and edgebanding products, tackboards, chalkboards and whiteboards, along with components and mouldings for window and door manufacturers

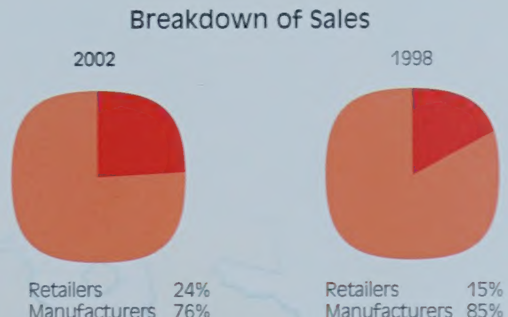
Markets

- Furniture and kitchen cabinet manufacturers and the residential and commercial woodworking industry
- Hardware retailers including hardware superstores

25 centres

24 in Canada: **22 distribution centres, 2 of which also specialize in manufacturing**
2 manufacturing subsidiaries
United States: **1 distribution centre**

800 Employees
More Than 35,000 Products

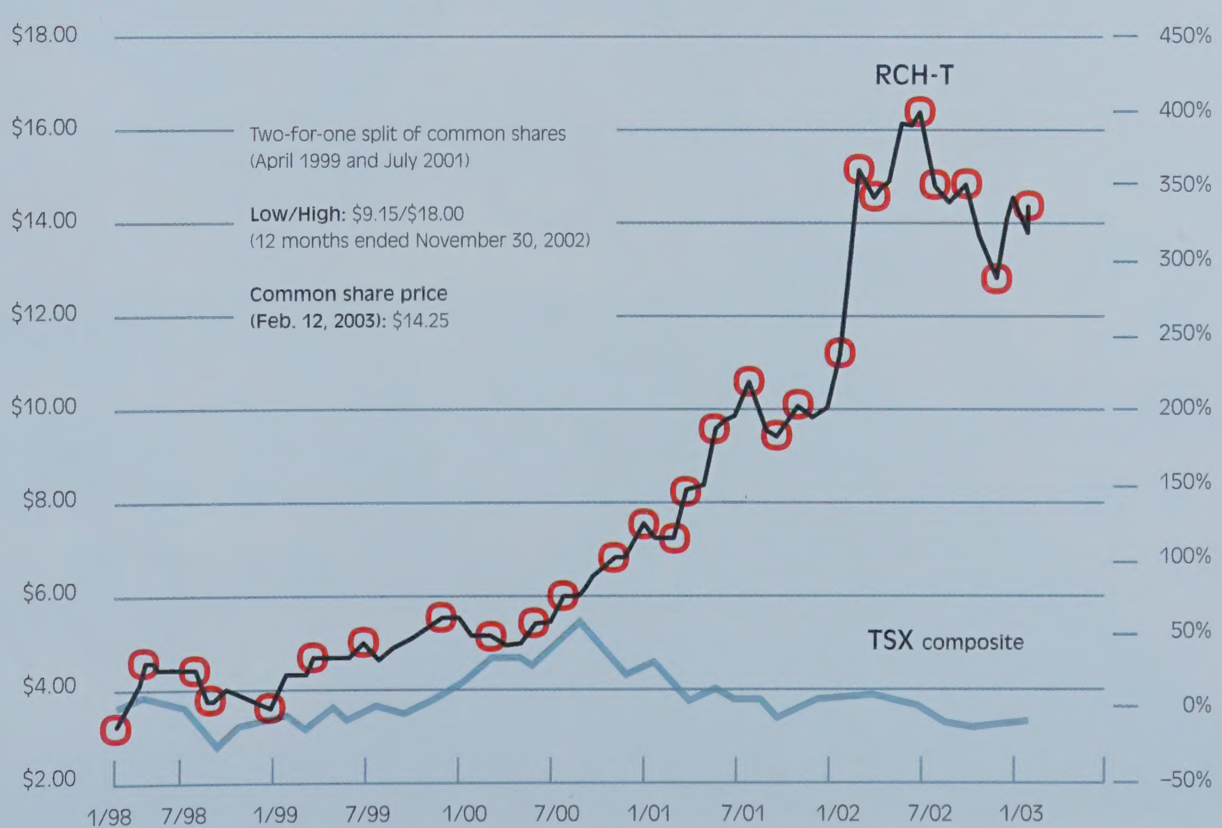


Years ended November 30
(in thousands of dollars, except per-share amounts and ratios)

	2002	2001	2000	1999	1998
Results	**$**	$	$	$	$
Sales	**259,112**	226,761	196,756	165,107	145,421
EBITDA	**33,808**	29,076	24,954	20,074	16,693
(% of sales)	**13.0 %**	12.8 %	12.7 %	12.2 %	11.5%
Adjusted net earnings (1)	**19,350**	15,634	13,153	10,206	8,379
Cash flows from operating activities (2)	**22,117**	17,693	15,354	11,862	9,829
Financial position					
Working capital	**54,619**	39,991	32,809	30,931	21,947
Total assets	**138,480**	125,561	111,364	87,659	84,138
Long-term debt (3)	**6,766**	4,312	4,715	5,012	4,610
Shareholders' equity	**96,934**	80,718	66,842	58,490	50,622
Per-share data (4)					
Weighted average number of shares outstanding (000s)	**22,527**	22,335	22,422	22,923	23,056
Adjusted net earnings (1)	**0.86**	0.70	0.59	0.44	0.36
Adjusted net earnings (fully diluted) (1)	**0.84**	0.68	0.56	0.42	0.34
Cash flows from operating activities (2)	**0.98**	0.79	0.68	0.52	0.43
Book value	**4.28**	3.59	3.00	2.55	2.19
Ratios					
Return on average equity (1)	**21.8 %**	21.2 %	21.0 %	18.7 %	18.0%
Long-term debt (3) to equity	**7.0 %**	5.3 %	7.1 %	8.6 %	9.1%

(1) Excluding amortization of goodwill
(2) Before net changes in non-cash working capital balances
(3) Excluding current portion
(4) After retroactive adjustments to reflect the two-for-one splits of common shares in April 1999 and July 2001

Richelieu's share appreciated 346% in last five fiscal years, including 31% in 2002.



Adjusted net earnings per share (1) (2)
(in $))

Sales
(in millions $)

Adjusted net earnings (1)
(in millions $)

Return on average equity (1)
(as a %)

Average annual growth over 5 years

19.4%

23.9%

Five-years return

20.1%

(1) Excluding amortization of goodwill
(2) After two-for-one stock splits of common shares in April 1999 and July 2001

Audi dealer (Laval, Quebec)
Integrating Richelieu products

QUARTERLY INFORMATION

(in thousands of dollars, except per-share amounts)	1	2	3	4
2002	$	$	$	$
Sales	53,834	70,047	65,318	69,913
EBITDA	5,580	9,408	9,016	9,804
Net earnings	2,969	5,397	5,169	5,815
EPS (basic)	$0.13	$0.24	$0.23	$0.26
EPS (fully diluted)	$0.13	$0.23	$0.22	$0.26
2001	$	$	$	$
Sales	46,907	59,145	58,536	62,173
EBITDA	4,786	7,874	8,071	8,345
Adjusted net earnings (1)	2,417	4,188	4,299	4,730
EPS (basic) (2)	$0.11	$0.19	$0.19	$0.21
EPS (fully diluted) (2)	$0.11	$0.18	$0.18	$0.21
2000	$	$	$	$
Sales	40,215	51,923	50,601	54,017
EBITDA	4,021	6,914	6,779	7,240
Adjusted net earnings (1)	2,035	3,628	3,581	3,909
EPS (basic) (2)	$0.09	$0.16	$0.16	$0.18
EPS (fully diluted) (2)	$0.09	$0.15	$0.15	$0.17

(1) Excluding amortization of goodwill
(2) After adjustments to reflect the two-for-one split of common shares in July 2001

2002 HIGHLIGHTS

First Quarter
- Sales growth of **14.8%** and net earnings growth of **22.8%**
- Dividend policy providing for the payment of an initial semi-annual dividend of $0.05 per common share

Second Quarter
- Sales growth of **18.4%** and net earnings growth of **28.9%**

Third Quarter
- Sales growth of **11.6%** and net earnings growth of **20.2%**
- Payment of the first semi-annual dividend of $0.06 per common share, higher than forecast

Fourth Quarter
- Sales growth of **12.5%** and net earnings growth of **22.9%**
- Acquisition on September 13, 2002, of 75% of the shares of **Menuiserie des Pins** (Beauce, Quebec), specializing in the manufacture of components and mouldings for window and door manufacturers
- Acquisition on November 1, 2002, of 100% of the shares of a distributor of finishing products for furniture and cabinets (Quebec)

MESSAGE TO SHAREHOLDERS

Richard Lord
President and
Chief Executive Officer

The five years ended November 30, 2002, were Richelieu's best ever, with average annual growth of 19.4% in sales and 23.9% in net earnings and a return on average equity of 20.1%. Over the same five-year period, Richelieu's share price appreciated 346%, including 31% in 2002. Moreover, a dividend policy providing for semi-annual payments further enhanced return on shareholder investment, making us one of the top value-creating public companies. This performance is due to our market leadership vision, our business culture rooted in ethics and common values, team work supporting our positioning, and our customer focus driven by the ongoing search for innovations and outstanding service. It reflects the expertise and commitment of our employees, 52% of whom are Richelieu shareholders. Above all, these strengths and results give us solid growth leverage for a promising future.

PARTNER OF THE YEAR 2002
Home Depot

IIDEX NeoCon Canada 2002
Interior Designers of Canada Award
Kitchen & Kitchen Products

In 2002, return on average equity topped 20% for the third consecutive year to reach a record high of 21.8%, reflecting our priority focus on profitability.

Our sales kept up their steady growth to total $259.1 million, up 14.3% over 2001 and up 31.7% over 2000. We achieved net earnings of $19.4 million or $0.84 per fully diluted share, an increase of 23.8% over the 2001 figure adjusted according to the CICA's new accounting standard for goodwill. Our financial position remained sound and our return on average equity reached a record high of 21.8%, holding at over 20% for the last three years. Fiscal 2002 was therefore another year of solid growth, complemented by [illegible] closed during the last quarter, in September and November 2002. These acquisitions will [illegible] on financial results for 2003, with additional sales of $9 million, and offer promising pote[illegible] synergies. We first acquired Menuiserie des Pins, based in Beauce, Quebec, and specializing in the manufacture of components and mouldings for window and door manufacturers and other customers we already served — followed by the acquisition of a distributor of finishing products for furniture and cabinets which was integrated in our Quebec City subsidiary Distributions 20-20. Our purchase of 75% of the capital stock of Menuiserie des Pins not only allowed us to penetrate a new niche — window and door manufacturers — it also gave us the expertise of executives who retained a 25% interest in the new subsidiary.

As in previous years, we continued to develop and deepen our market segments, to innovate with the marketing programs that are one of Richelieu's greatest strengths, and to add many novelties to our product selection. The future of the hardware industry depends on the creation of features that improve these products to make them more practical, durable, aesthetic and ergonomic. Advances in technology and industrial design indeed give rise to technological innovations, cutting-edge materials and diversified models.

One of the
Four Quebec Champions
"They stand apart for their stock market and financial performance over 5 years"

Québec Entreprise
Stock Market Champion

But above all, the future also depends on the efficient distribution of these specialty products, and fulfilling the needs of an extensive customer base. As a leading distributor, we have access to the right products, at the right time, and at the right place, and can deliver them under the best conditions. We have built great purchasing power, a network of modern centres equipped for logistical efficiency, and reliable relationships with suppliers around the world. These advantages enable us to offer both manufacturers and retailers a product selection unique in Canada and service that optimizes their business.

Our unique ability to meet customers' needs also allows us to maximize the benefits of our acquisitions, which have all yielded synergies. Between 2000 and 2002 inclusively, we made eight acquisitions in Ontario, Western Canada and Quebec. We thereby enhanced our expertise and network, strengthened our markets, penetrated new niches and geographical segments, diversified our product mix and made further advances in the retail sector, which now accounts for 24% of our total sales, up from 21% in 2001 and 17% in 2000. In fact, Richelieu achieves its strongest growth in the hardware retailer and superstore segment and anticipates further penetration. The diversity and quality of our product selection, our in-store displays, our efficient delivery and the quality of our customer service are recognized strengths, as confirmed by our proudly earned industry awards and testimonials from our customers, including the largest retailers.

In 2002, to meet our growth needs in both Canada and the United States where our sales grew by more than 20%, we further enhanced our distribution capacity. We finished extending our Vancouver centre and started to expand the Reliable Fasteners facilities in Montreal which, since its acquisition, have set a course for sales growth and increased them by more than 25%. In addition, the technological advances we implemented at head office and throughout the network last year all focused on providing us with the best before and after-sales service capabilities in North America and on improving our management information.

SIDIM Montreal International Interior Design Show
Certificate of Excellence 2002

TOP 30
Small-to-medium publicly traded growth companies in Quebec
Montreal Business Magazine

In 2003, Richelieu will complete its first decade as a public company. Over this 10-year period, we have developed a business model we continue to work on with passion. We are positioned at the forefront of a specialty market with a strategy that sets us apart, giving us a sizeable lead and great potential for future growth.

Having developed a business model unique in Canada as a customer-driven hardware distributor serving both manufacturers and retailers, Richelieu is an industry pioneer. This model is built upon:

- Proven distribution logistics, with an efficient network of 24 centres across Canada plus our centre in Detroit in the United States, giving us 750,000 square feet of total warehousing and manufacturing space. Each of these centres has a showroom and the latest technology to provide outstanding delivery service within 24 hours. A dashboard and an EDI system with our major customers and suppliers optimize our day-to-day operating efficiency.

- An *Everything under one roof* product strategy with a diversified selection of over 35,000 SKUs that is second to none in Canada. These products are selected from top suppliers worldwide.

- Marketing and customer service that set us apart, with more than 300 people dedicated to our customers as well as sales support tools and programs that specifically target our market segments' needs. These include exclusive marketing programs showcasing **the Richelieu brand** under which we sell more than 50% of our products, quality catalogues, attractive displays, as well as product knowledge learning and training programs. Architects and designers, as key partners, are kept informed of ongoing innovations in our product lines. What's more, our transactional web site, which features more than 17,000 SKUs, is a unique source of information for our customers and the general public.

- Manufacturing operations that give us a real edge by allowing us to provide our customers with direct access to a range of products that stand apart. Cedan's and Menuiserie des Pins' products are also distributed through our network.

It is by building upon these solid fundamentals that we will continue to maximize our market potential in 2003 and the coming years. Our key sources of future growth remain:

- the vigorous North American commercial and residential renovation market;
- superstores which are steadily expanding at the rate of more than 15 new openings a year in Canada, plus other hardware retailers;
- the fast-growing kitchen and bathroom cabinet manufacturers segment;
- the home furnishings market;
- new decorating trends;
- and the many innovations by our suppliers.

In 2003, we will focus on expanding our existing markets with new products while penetrating new segments and continuing to add new products to our selection. We intend to study any acquisition opportunity in Canada or the United States that meets our criteria, which remain the business's solidity, its compatibility with our organization, its profitability, its potential synergies, at a reasonable price. Solely those opportunities meeting these criteria will retain our attention.

In conclusion, we would like to thank all Richelieu's employees who, through their skills, their customer commitment and their creativity allow the Company to steadily grow year after year and to be recognized for its innovativeness, quality of service and return on equity. We also wish to highlight the contribution of our Board members to the Company's success and to thank all our shareholders for their support. We are quite confident as to our further growth in 2003 and the years thereafter, for the benefit of our customers, employees and shareholders.

Richard Lord

President and Chief Executive Officer

Directors

Jean E. Douville (1) (2)
Chairman of the Board
Richelieu Hardware Ltd.
President
Schroder Ventures Canada Inc.

Robert Chevrier (1) (2)
Director of Corporations

Mathieu Gauvin (1)
Vice-President
Schroders & Associates Canada Inc.

Richard Lord
President and Chief Executive Officer
Richelieu Hardware Ltd.

Robert L. Trudeau (2)
Chairman of the Board
Trudeau Corporation

(1) Member of the Audit Committee
(2) Member of the Human Resources Committee

Officers

Richard Lord
President and Chief Executive Officer

Georges Albert
Vice-President, Finance

Guy Grenier
Manager, Marketing

Claude Hamilton
General Manager of Divisions

Marion Kloibhofer
General Manager, Central Canada

John Statton
General Manager, Western Canada

Marc Daubois
General Manager
Reliable Fasteners Inc.

Denis Roy
General Manager
Cedan Industries Inc.

Serge Labbé
General Manager
Menuiserie des Pins Ltée

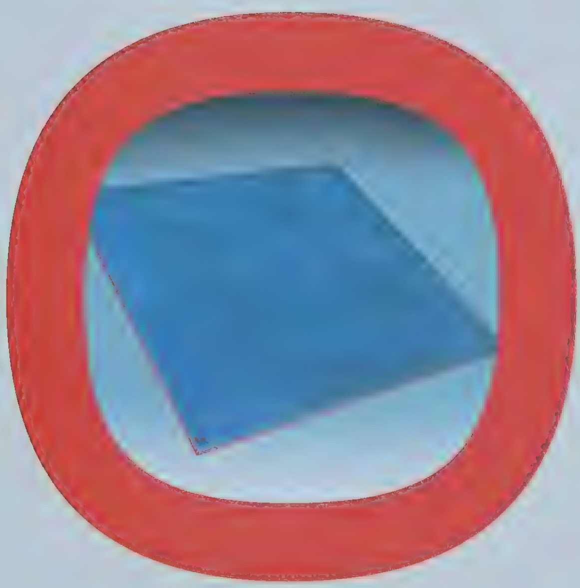
Sylvie Laramée
Manager, Administration
Simtab Panneaux Neos

Christiane Jodoin
Partner
Osler, Hoskin & Harcourt
Corporate Secretary

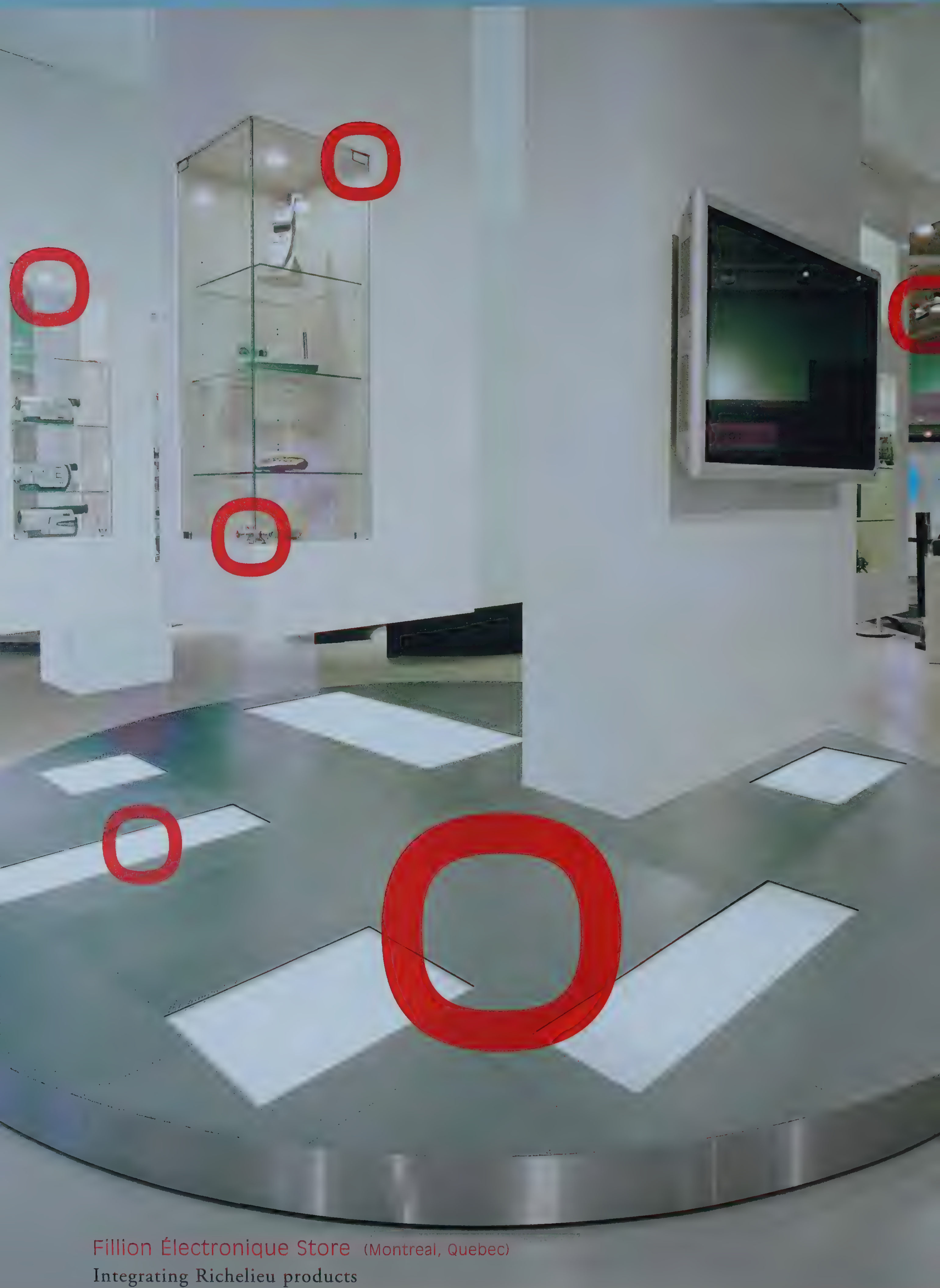
Bathroom layout

Integrating Richelieu products





Many products distributed by Richelieu are used in renovating bathrooms and kitchens — much used rooms in day-to-day living and hence the most renovated. Besides greatly improving quality of life, their renovation is most profitable when reselling a home. Richelieu's products are sourced from the top suppliers worldwide to offer the most complete selection of innovative specialty items that meet new interior design and decorating trends reflecting the search for comfort, functionality and aesthetics.



Fillion Électronique Store (Montreal, Quebec)
Integrating Richelieu products

Richelieu's product lines greatly enhance the quality of commercial renovation, which is booming. Whether they are obvious or concealed, of strictly technical usefulness or decorative, these products include the latest technological innovations. They are a must for durable upgrades, attractive decorations, and original store, restaurant, hotel and office layouts.

Home Depot (Canada)

Year after year, Richelieu increases its share of the retail market of major hardware chains and the extensive network of other retailers. This fast-growing segment, which accounted for 24% of Richelieu's total sales in 2002, will remain one of its priorities. Further market development will be achieved through the many innovations that constantly enhance its product selection.

Management's Discussion and Analysis of Operating Results and Financial Position

In 2002, Richelieu kept up its strong growth thanks to the contribution of all its market segments. It also continued to expand with two fourth-quarter acquisitions that opened up new niches and diversified its product selection, while strengthening its distribution network and manufacturing operations. The Company ended the year with a 21.8% return on average equity, its best ever. This performance was reflected by the appreciation in its share price, which grew by 31% in 2002. During the year, Richelieu announced a dividend policy and, last July, paid its first semi-annual dividend to shareholders.

2002 Highlights

1. **Consolidated sales** rose to $259.1 million, up 14.3% over 2001.

2. **Earnings before income taxes, interest, depreciation and amortization (EBITDA)** totalled $33.8 million, an increase of 16.3%.

3. **Net earnings** amounted to $19.4 million, up 31.9% over 2001 and up 23.8% compared with the 2001 net earnings adjusted based on the new CICA standard in accounting for goodwill.

4. **Fully diluted earnings per share** jumped to $0.84, up 23.5% over the 2001 value adjusted based on the new CICA standard in accounting for goodwill.

5. **Average return on equity** rose to 21.8%.

6. **The first semi-annual dividend** of $0.06 was paid in July 2002.

7. **The purchase of 75% of the shares of Menuiserie des Pins,** which specializes in the manufacture of components and mouldings for window and door manufacturers, closed on September 13, 2002. That was followed by the closing of the acquisition of 100% of a **distributor of finishing products for furniture and cabinets** on November 1, 2002.

Cash flows from operating activities [1]
(in millions $)

Shareholders' equity
Long-term debt
(in millions $)

Book value per share
(in $)

(1) Before net changes in non-cash working capital balances

Operating Results For the year ended November 30, 2002, **consolidated sales** totalled $259.1 million, up by $32.4 million or 14.3% over the previous year. This increase reflects internal growth of 9.9% and growth of 4.4% from the acquisitions made in 2001 and the fourth quarter of 2002. These figures also reflect a 31.7% increase over 2000.

Some 95% of the 2002 consolidated sales came from Richelieu's distribution operations, while manufacturing accounted for the other 5%.

The Company realized 95% of its business volume in Canada and 5% in the United States, and its U.S. sales rose 20.4% during the year.

Richelieu posted sustained sales growth quarter after quarter, with increases of 14.8% including 9.3% internal growth in the first quarter; 18.4% including 13.9% internal growth in the second; 11.6% including 8.3% internal growth in the third; and 12.5% including 8.4% internal growth in the fourth quarter.

The Company has achieved an average annual sales growth of 19.4% over the past five years.

Earnings before income taxes, interest, depreciation and amortization (EBITDA) totalled $33.8 million, up 16.3% over $29.1 million in 2001, and up 35.5% over $25.0 million in 2000.

Richelieu's sales growth and evolving product mix raised the **profit margin (EBITDA)** to 13.0% in 2002, up from 12.8% in 2001 and 12.7% in 2000.

Earnings before income taxes, goodwill charges and non-controlling interest rose to $30.3 million, up 18.4% over the previous year and up 36.1% over 2000.

The $364,000 increase in depreciation of fixed assets compared with a year earlier was due mainly to the capital expenditures made in recent years.

As a result of the repayment of some $9.0 million in bank loans during the year, interest and bank charges were reduced by $278,000 to $873,000.

The effective tax rate further declined in 2002 compared to 2001, decreasing by 3.1% from 39.0% to 35.9% due mainly to the reduction in the federal tax rate and the tax rates in force in some provinces.

Net earnings amounted to $19.4 million, an increase of 23.8% over the adjusted net earnings of $15.6 million in 2001, and of 47.1% over $13.2 million in 2000.

Earnings per share rose to $0.86 ($0.84 fully diluted) in 2002, compared with $0.70 ($0.68 fully diluted) for 2001, an increase of 22.9%.

Over the past five years, Richelieu has achieved an average annual net earnings growth of 23.9% (excluding amortization of goodwill).

Cash Flows and Financial Resources The Company's financial position remained healthy and solid in 2002.

Reflecting mainly the strong growth in net earnings, **cash flows from operating activities** (before net changes in non-cash working capital balances related to operations) rose 25% to $22.1 million or $0.98 per share, up from $17.7 million or $0.79 per share in 2001.

Net cash flows used by financing activities increased to $13.4 million in 2002, up from $1.9 million a year earlier. During the year, the Company repaid $9.0 million in bank loans and paid a first semi-annual dividend totalling $1.4 million to its shareholders. It also repaid $1.3 million in long-term debt and settled in cash $2.2 million for stock options.

Investing activities used cash flows of $4.8 million in 2002, allocated to business acquisitions for a total of $2.8 million — namely the purchase of 75% of the capital stock of Menuiserie des Pins and 100% of a distributor of finishing products for furniture and cabinets — as well as new fixed assets for about $2.0 million, especially equipment and leasehold improvements.

Balance Sheet Changes in significant balance sheet items generally reflect the Company's internal growth during the year, as well as the two acquisitions closed in the fourth quarter. As at November 30, 2002, **total assets** amounted to $138.5 million, an increase of 10.3% or $12.9 million over $125.6 million a year earlier. Accounts receivable stood at $38.5 million, up by 9.1% or $3.2 million over the prior year. Inventories rose to $47.7 million, an increase of 9.4% or $4.1 million. Goodwill totalled $31.9 million, up by 7.2% or $2.1 million over 2001.

As at November 30, 2002, the Company's **working capital** stood at $54.6 million, for a **current ratio** of 2.7:1, compared with 2.0:1 a year earlier.

The debt assumed upon the September 2002 acquisition of Menuiserie des Pins increased Richelieu's **long-term debt** by $2.5 million, from $4.3 million as at November 30, 2001, to $6.8 million. This long-term debt consists mainly of bank loans bearing interest at prime rate, plus balances payable on business acquisitions. During the year, Richelieu also repaid over half its bank loans, which amounted to $7.7 million at the close of 2002, compared with $16.7 million a year earlier. Total interest-bearing debt thus decreased from $22.8 million at the end of 2001 to $16.0 million as at November 30, 2002, down 42.3%.

Considering its low indebtedness, its liquid assets, and the cash flows from operating activities to be generated in the forthcoming year, Richelieu expects to easily assume its financial obligations for the year ending November 30, 2003. It also has access to an authorized line of credit of $25 million bearing interest at prime rate and to other external financing if necessary.

Shareholders' equity increased by 20.1% or $16.2 million in 2002, to $96.9 million from $80.7 million at the end of the previous year. This major variation is the result of an increase of 24% or $15.8 million in retained earnings, which totalled $81.8 million versus $66.0 million in 2001. In 2002, the Company issued 172,500 common shares pursuant to the exercise of options under the stock option plan, raising capital stock to $15.1 million from $14.7 million as at November 30, 2001.

The long-term debt to equity ratio stood at 7.0% at year-end.

The book value rose 19.2% to $4.28 per share as at November 30, 2002, up from $3.59 per share at the same date a year earlier.

Return on average equity improved to 21.8% from 21.2% in 2001, reaching a record high, holding at over 20% in the last three years.

Dividend Policy The solid strengths setting Richelieu apart as a public company, its liquidity and its outlook enable it to pay dividends to its shareholders, giving them a further return on investment, while pursuing its acquisitions and its network and organizational improvements to remain the market leader in Canada. In 2002, Richelieu's directors thus approved a dividend policy providing for the payment to shareholders of an initial semi-annual dividend of $0.05 per common share. Considering its excellent results and growth outlook, a dividend of $0.06 per common share was paid to shareholders on July 15, 2002, or about 15% of earnings per share on an annual basis. Another semi-annual dividend of $0.07 per common share was declared on January 22, 2003, representing an increase of 16.7% over the previous dividend. This dividend is payable on February 18, 2003.

Share Price Appreciation The share price fluctuated between $9.15 and $18.00, while the trading volume on the Toronto Stock Exchange totalled 4.3 million shares during the year. The share price stood at $12.81 at the close of markets on November 30, 2002, up from $9.75 as at November 30, 2001, an appreciation of 31%. It should be noted that Richelieu's share price has jumped 346% over the past five years.

Risk and Uncertainties Over the past 10 years, Richelieu has secured solid fundamentals, critical mass and a front-line positioning translating into strong purchasing power and a sizeable market lead. Furthermore, its expansion-by-acquisition strategy favours sustained and disciplined growth of the business. The Company's priorities are to maintain satisfactory profitability, even in economic slowdowns, as it has successfully done so far.

Its business strategy based on a product selection unique in Canada from suppliers around the world, creative marketing that sets it apart, and unparalleled quality of service, enable it to maintain a competitive edge and to deal with unfavourable fluctuations in currency.

Outlook In 2003 and the coming years, Richelieu will pursue its internal growth by expanding its market segments, especially with the product lines launched following its latest acquisitions and the innovations from its suppliers that will further enhance its product selection. The Company also remains on the lookout for any North American opportunity to further diversify its market segments and increase its sales, profitability and return on equity.

Management's Report

Relatively to the consolidated financial statements

The consolidated financial statements of Richelieu Hardware Ltd. and other financial information included in this annual report are the responsability of the Company's management. These consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles and approved by the Board of Directors.

Richelieu Hardware Ltd. maintains internal control systems which, according to the management, reasonably ensure the accuracy of the financial information and maintain proper standards of conduct in the company's activities.

The Board of Directors fulfills its responsability regarding the consolidated financial statements included in the annual report, primarily through its audit committee. This committee which meets periodically with the Company's directors and external auditors, has reviewed the consolidated financial statements of Richelieu Hardware Ltd. and has recommended that they be approved by the Board of Directors.

The consolidated financial statements have been audited by the Company's external auditors, Ernst & Young LLP, chartered accountants.

Montréal, Canada
December 20, 2002

Richard Lord
President and
Chief Executive Officer

Georges Albert
Vice-President, Finance

Auditors' Report

To the Shareholders of
Richelieu Hardware Ltd.

We have audited the consolidated balance sheets of **Richelieu Hardware Ltd**. as at November 30, 2002 and 2001 and the consolidated statements of earnings and retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at November 30, 2002 and 2001 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Montréal, Canada
December 20, 2002

Ernst & Young LLP

Chartered Accountants

Consolidated Balance Sheets

As at November 30
(In thousands of dollars)

	2002	2001
	$	$
ASSETS		
Current assets		
Accounts receivable (notes 5 and 6)	**38,485**	35,279
Income taxes receivable	**738**	838
Inventories (notes 5 and 6)	**47,685**	43,576
Prepaid expenses	**220**	165
	87,128	79,858
Capital assets (notes 4 and 6)	**19,471**	15,953
Goodwill	**31,881**	29,750
	138,480	125,561
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Bank loan (note 5)	**7,733**	16,704
Accounts payable and accrued liabilities	**23,242**	21,366
Current portion of long-term debt (note 6)	**1,534**	1,797
	32,509	39,867
Long-term debt (note 6)	**6,766**	4,312
Future income taxes (note 8)	**1,286**	664
Non-controlling interest	**985**	—
	41,546	44,843
Shareholders' equity		
Capital stock (note 7)	**15,118**	14,721
Retained earnings	**81,816**	65,997
	96,934	80,718
	138,480	125,561

See accompanying notes

On behalf of the Board:

Richard Lord
Director

Jean E. Douville
Director

Consolidated Statements of Earnings and Retained Earnings

Years ended November 30
(In thousands of dollars, except earnings per share)

	2002 $	2001 $
Sales	259,112	226,761
Cost of sales and warehouse, selling and administrative expenses	225,304	197,685
Earnings before the following	33,808	29,076
Amortization of capital assets	2,275	1,911
Interest on long-term debt	321	393
Interest on short-term debt	873	1,151
	3,469	3,455
Earnings before income taxes, goodwill charges and non-controlling interest	30,339	25,621
Income taxes (note 8)	10,879	9,987
Net earnings before goodwill charges and non-controlling interest	19,460	15,634
Goodwill charges (2001 – net of income taxes of $246)	—	961
Non-controlling interest	110	—
Net earnings	19,350	14,673
Retained earnings, beginning of year	65,997	56,020
Dividends	(1,352)	—
Premium on redemption of shares for cancellation (note 7)	—	(1,811)
Stock options settled in cash, net of income taxes (note 7)	(2,179)	(2,885)
Retained earnings, end of year	81,816	65,997
Basic earnings per share (notes 2 and 7)		
Before goodwill charges	0.86	0.70
After goodwill charges	0.86	0.66
Diluted earnings per share (notes 2 and 7)		
Before goodwill charges	0.84	0.68
After goodwill charges	0.84	0.64
Weighted average number of shares outstanding	22,527,085	22,334,987

See accompanying notes

Consolidated Statements of Cash Flows

Years ended November 30 (In thousands of dollars)	2002 $	2001 $
CASH FLOWS FROM OPERATING ACTIVITIES		
Net earnings	19,350	14,673
Items not requiring cash flows		
Amortization of capital assets	2,275	1,911
Amortization of goodwill	—	1,207
Future income taxes	382	(98)
Non-controlling interest	110	—
	22,117	17,693
Net change in non-cash working capital balances related to operations	(3,833)	(8,307)
	18,284	9,386
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase (decrease) in bank loan	(8,971)	3,820
Redemption of shares for cancellation	—	(1,942)
Stock options settled in cash	(2,179)	(2,885)
Repayment of long-term debt	(1,340)	(942)
Dividends	(1,352)	—
Issue of common shares	397	30
	(13,445)	(1,919)
CASH FLOWS FROM INVESTING ACTIVITIES		
Business acquisitions (note 3)	(2,845)	(4,617)
Additions to capital assets	(1,994)	(2,850)
	(4,839)	(7,467)
Net change in cash and cash equivalents and balances at beginning and at end of year	—	—
Supplemental information:		
Income taxes paid	9,171	10,615
Interest paid	1,212	1,501

See accompanying notes

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

November 30, 2002 and 2001

(Amounts are in thousands of dollars, except per-share amounts)

NATURE OF BUSINESS

Richelieu Hardware Ltd. acts as an importer, a distributor and a manufacturer of specialty products for residential and commercial furniture and kitchen cabinet manufacturers, as well as hardware retailers including hardware and home improvement superstores.

1) Summary of significant accounting policies

The Company's consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles which require management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements. Actual results could differ from these estimates. According to management, the Company's consolidated financial statements have been properly prepared within the reasonable limits of materiality and in conformity with the accounting policies summarized below:

Consolidation

The consolidated financial statements include the accounts of Richelieu Hardware Ltd. and its subsidiaries. All significant intercompany balances and transactions have been eliminated upon consolidation.

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, bank balances available and highly liquid investments with an initial term of three months or less that are stated at cost, which approximates market value.

Inventories

Finished goods and work in progress are valued at the lower of average cost and net realizable value. Raw materials are valued at the lower of average cost and replacement cost.

Capital assets

Capital assets are recorded at cost. Amortization is computed under the straight-line method over the following estimated useful lives:

Buildings	20 years
Leasehold improvements	over the terms of the leases
Machinery and equipment	5 to 10 years
Rolling stock	5 years
Furniture and fixtures	5 years
Computer equipment	3 to 5 years

Goodwill

Goodwill represents the excess of the purchase price over the fair value of net assets acquired. Goodwill is tested for impairment annually or more often if events or changes in circumstances indicate that it might be impaired. The impairment test consists of a comparison of the fair value of the reporting unit to which goodwill is assigned with its carrying amount. Any impairment loss in the carrying amount compared with the fair value is charged to earnings in the year in which the impairment occur.

Income taxes

The Company accounts for income taxes using the liability method. Under this method, future income tax assets and liabilities are accounted for based on estimated taxes recoverable or payable that would result from the recovery or settlement of the carrying amounts of assets and liabilities recorded in the financial statements. Future tax assets and liabilities are measured using the tax rates that are expected to be in effect in the years when the temporary differences are expected to reverse. Changes in these balances are included in earnings of the year in which they arise.

Foreign currencies

The Company follows the temporal method to translate its foreign currency balances and transactions and the accounts of its integrated foreign subsidiary into Canadian dollars. Under this method, monetary assets and liabilities are translated at the rates of exchange in effect at year-end and the other items on the balance sheet and statement of earnings are translated at the exchange rates in effect at the date of transaction. Exchange gains and losses are included in net earnings for the period.

Forward exchange contracts

The Company periodically enters into forward exchange contracts with major financial institutions to partially hedge the effects of foreign currency fluctuations related to foreign-currency denominated payables and also to hedge firm purchase commitments. Gains and losses on these forward exchange contracts are recognized in net earnings during the same period as the corresponding anticipated transactions.

Share option plan

No expense is recognized when share options are issued to employees under the Company's share option plan. Any consideration paid by employees upon the exercise of share options is credited to share capital. If share options are purchased from employees by the Company, the amount paid net of related taxes is charged to retained earnings.

Employee share ownership program

The Company has an employee share ownership program under which the Company can contribute to the program based on the employees' contribution in order to enable employees to buy the Company's shares on the market. The employees' contribution is limited to 10% of their annual remuneration while the Company's contribution is determined by the board of directors. The Company's contribution is charged to earnings when the employees' contribution is made under the program.

Earnings per share

Basic earnings per share are calculated using the weighted average number of common shares outstanding during the year. Diluted earnings per share are calculated using the treasury stock method and take into account all the elements that have a dilutive effect.

(Amounts are in thousands of dollars, except per-share amounts)

2) Change in accounting policy

The Company prospectively adopted the standard in Section 3062, entitled "Goodwill and Other Intangible Assets," of the Canadian Institute of Chartered Accountants Handbook. Under the new standard, goodwill is no longer amortized but is tested for impairment annually and the excess of the carrying amount over the fair value of goodwill is charged to earnings. The following table reconciles the reported net earnings and adjusted net earnings, excluding amortization of goodwill and the related tax effects:

	2002 $	2001 $
Reported net earnings	**19,350**	14,673
Amortization of goodwill	**—**	1,207
Related tax effects	**—**	(246)
Adjusted net earnings	**19,350**	15,634
Reported earnings per share		
Basic	**0.86**	0.66
Diluted	**0.84**	0.64
Adjusted earnings per share		
Basic	**0.86**	0.70
Diluted	**0.84**	0.68

For the year ended November 30, 2001, goodwill under the former standard was amortized over a period of twenty to forty years and measured for permanent impairment by comparing the net carrying amount with an estimate of the undiscounted cash flows.

3) Business acquisitions

On September 13, 2002, the Company acquired 75% of the shares of Menuiserie des Pins (L.F.) Ltée ("MDP"), a manufacturer and distributor of products designed mainly for window and door manufacturers. In addition, on November 1st, 2002, the Company acquired 100% of the shares of 9065-0128 Québec Inc., a distributor of specialty finishing products for home furniture, for an amount of $251, of which $220 was paid cash.

On June 30, 2001, the Company acquired all of the shares of White-Wood Thunder Bay Ltd. and, on August 20, 2001, the net operating assets of Onward Hardware ("Onward"), two distributors of specialty products in Ontario. In addition, on October 1st, 2001, the Company acquired the net operating assets of Office Implants Inc., a distributor of ergonomic office products in Alberta.

These transactions were accounted for by the purchase method and the results of operations were recorded from the purchase date.

Summary of acquisitions

	2002	2001		
	MDP $	Onward $	Others $	Total $
Net assets acquired				
Current assets	**2,506**	1,840	1,163	3,003
Capital assets	**3,788**	20	81	101
Goodwill	**2,000**	5,980	380	6,360
	8,294	7,840	1,624	9,464
Current liabilities assumed	**1,054**	113	544	657
Bank loan assumed (note 6)	**2,500**	—	—	—
Future income taxes	**240**	—	—	—
Non-controlling interest	**875**	—	—	—
Net assets acquired	**3,625**	7,727	1,080	8,807
Consideration				
Cash	**2,625**	3,727	890	4,617
Balances of sale payable (note 6)	**1,000**	—	190	190
Issuance of 410,256 common shares of the Company	**—**	4,000	—	4,000

4) Capital assets

	2002		2001	
	Cost $	**Accumulated amortization $**	Cost $	Accumulated amortization $
Land	**3,547**	**—**	3,336	—
Buildings	**11,258**	**2,628**	9,029	2,126
Leasehold improvements	**1,422**	**1,041**	1,080	965
Machinery and equipment	**10,302**	**5,352**	8,445	4,576
Rolling stock	**1,601**	**883**	1,169	681
Furniture and fixtures	**2,215**	**2,202**	2,063	2,015
Computer equipment	**5,037**	**3,805**	4,479	3,285
	35,382	**15,911**	29,601	13,648
Accumulated amortization	**(15,911)**		(13,648)	
	19,471		15,953	

5) Bank loan

The Company has a line of credit available in the amount of $25 million which bears interest at prime rate, which was 4.5% at November 30, 2002 (2001 – 4%) and is renewable annually.

6) Long-term debt

	2002 $	2001 $
(a) Bank loan renewable in 2003, bearing interest at 6.5%.	**3,593**	3,821
(b) Bank loan maturing in 2005, bearing interest at 6.375%.	**508**	743

6) Long-term debt *(cont'd)*

	2002 $	2001 $
(c) Bank demand loan, bearing interest at the bank's prime rate, which was 4.5% as at November 30, 2002 and, subsequent to year-end, has been refinanced into a term loan maturing in 2008, bearing interest at the bank's prime rate plus 0.25%, collateralized by an immovable hypothec.	2,500	—
(d) Bank loan maturing in 2003, bearing interest at the bank's prime rate, collateralized by an immovable hypothec.	368	457
(e) Bank loan maturing in 2004, bearing interest at 7.75%, collateralized by an immovable hypothec.	98	121
(f) Balances payable on businesses acquisition, bearing interest at rates ranging from 4% to 4.25% and maturing at various dates until 2005.	1,220	940
(g) Other loans maturing at various dates until 2005.	13	27
	8,300	6,109
Less: Current portion	1,534	1,797
	6,766	4,312

The principal instalments due on long-term debt for upcoming five years, considering the offer to renew at similar conditions the bank loans maturing in 2003, are as follows:

	$
2003	1,534
2004	1,501
2005	1,246
2006	912
2007	863

7) Capital stock

Authorized

An unlimited number of:

Non-voting first and second preferred shares issuable in series, the characteristics of which are to be determined by the Board of Directors.

Common shares.

Issued

	2002 $	2001 $
22,655,812 common shares (2001 – 22,483,312)	15,118	14,721

During 2002, the Company issued 172,500 common shares (2001 – 14,000) at a price of $2.3043 per share (2001 – $2.1625) pursuant to the exercise of 172,500 options (2001 – 14,000) under the share option plan. During 2001, the Company, through a normal course issuer bid, purchased for cancellation 200,000 common shares for a cash consideration of $1.942 million and issued 410,256 common shares at a price of $9.75 per share for a business acquisition.

Share option plan

The Company has a share option plan for its directors, officers and key employees. The subscription price of each share issued under the plan is equal to the market price of the shares five days prior to the day the option was granted and must be paid in full at the time the option is exercised. Options may be exercised one year after they were granted on the basis of 25% per year and may not extend beyond ten years from the date they were granted.

Until October 31, 2002, option holders under the plan could elect to receive at the time the options are exercised, a cash amount equal to the difference between the market price of the underlying shares and the exercise price of the options. The mechanism by which options could be exercised for cash was eliminated on October 31, 2002.

As at November 30, 2002, 1,169,700 options (2001 – 905,350) were still available to be granted.

In the last two years, transactions involving options are summarized as follows:

	Options	Exercise price per share $	Aggregate $
Outstanding, November 30, 2000	1,604,000	1.71 to 7.05	4,171
Granted	261,000	7.28 to 9.96	1,945
Exercised	(14,000)	2.16	(30)
Settled in cash	(658,950)	1.71 to 4.26	(1,468)
Cancelled	(12,000)	7.28	(87)
Outstanding, November 30, 2001	1,180,050	1.71 to 9.96	4,531
Granted	29,000	11.35 to 16.38	386
Exercised	(172,500)	1.91 to 7.28	(397)
Settled in cash	(273,350)	1.71 to 7.28	(811)
Cancelled	(20,000)	4.26 to 7.28	(127)
Outstanding, November 30, 2002	**743,200**	**1.71 to 16.38**	**3,582**

The table below summarizes information regarding the share options outstanding as at November 30, 2002:

	Share options outstanding			Exercisable options	
Range in exercise price (in dollars)	Number of options outstanding (in thousands)	Weighted average remaining period (years)	Weighted average exercise price (in dollars)	Number of options exercisable (in thousands)	Weighted average exercise price (in dollars)
1.71 – 2.20	303	2.69	2.00	303	2.00
4.26 – 5.15	147	5.76	4.36	139	4.32
6.35 – 7.28	247	8.13	7.19	72	7.12
9.96 – 16.38	46	9.30	12.09	4	9.96
	743	5.52	4.82	518	3.40

(Amounts are in thousands of dollars, except per-share amounts)

8) Income taxes

	2002 $	2001 $
Current	**10,497**	10,085
Future income taxes due to temporary differences	**467**	(37)
Future income taxes due to the impact of tax rate changes	**(85)**	(61)
	10,879	9,987

The effective income tax rate differs from the combined statutory rates for the following reasons:

	2002 $	2001 $
Combined statutory rates	**36.2%**	39.2%
Income taxes at combined statutory rates	**10,974**	10,038
Increase (decrease) resulting from:		
Manufacturing and processing credit	**(50)**	(52)
Impact of tax rate changes on future taxes	**(85)**	(61)
Miscellaneous non-deductible expenses	**40**	62
	10,879	9,987

Future income taxes in the balance sheet reflect the net tax impact of temporary differences between the value of capital assets for accounting and tax purposes.

9) Commitments

a) Leases

The Company is committed with respect to operating leases for warehouse and office premises expiring on various dates up to 2007. The future minimum payments, excluding executory costs for which the Company is responsible, are as follows:

	$
2003	1,668
2004	1,218
2005	1,009
2006	712
2007	295
	4,902

b) Forward exchange contracts

As at November 30, 2002, the Company held the following forward exchange contracts having maturities of less than one year.

Type	Currency	Average exchange rate
Buy	3,000 euros	1.5195

10) Financial instruments

Fair values

The carrying value of the accounts receivable, bank loan and accounts payable and accrued liabilities are a reasonable estimate of their fair value because of their short maturity.

The carrying value of the loans included in the long-term debt approximates their fair value either because of the floating rate nature of some loans or because management estimates that the loans payable with fixed interest rates have no significant difference between their fair value and their carrying value, based on rates currently available to the Company on loans with similar terms and remaining maturities.

As at November 30, 2002, the fair value of the forward exchange contracts is $108 representing the amount the Company would receive on settlement of these contracts at spot rate.

Credit risk

The Company sells products to customers primarily in Canada. The Company performs ongoing credit evaluations of customers and generally does not require collateral. As at November 30, 2002 and 2001, no customer accounted for over 10% of the total accounts receivable.

11) Segmented information

Management has determined that the Company's acts as a distributor and manufacturer of specialized hardware. The accounting policies of each operating sectors are the same as those described in the summary of significant accounting policies.

Segmented information are summarized as follows:

	Distribution $	Manufacturing $	Total $
2002			
External sales	**244,943**	**14,169**	**259,112**
Inter-segment sales	**—**	**4,387**	**4,387**
Earnings before taxes, interest and amortization	**32,294**	**1,514**	**33,808**
Amortization of capital assets	**1,667**	**608**	**2,275**
Goodwill	**29,881**	**2,000**	**31,881**
Total assets	**121,916**	**16,564**	**138,480**
Additions to capital assets	**1,879**	**115**	**1,994**
2001			
External sales	214,896	11,865	226,761
Inter-segment sales	—	3,529	3,529
Earnings before taxes, interest and amortization	27,684	1,392	29,076
Amortization of capital assets	1,384	527	1,911
Goodwill	29,750	—	29,750
Total assets	117,000	8,561	125,561
Additions to capital assets	2,441	409	2,850

The Company's sales to foreign countries are primarily directed to the United States and amounted to $13.234 million (2001 – $10.988 million).

Transfer Agent and Registrar

Computershare Trust Company
of Canada

Auditors

Ernst & Young LLP

1 Place Ville Marie

Suite 2400

Montreal, Quebec

H3B 3M9

Head Office

Richelieu Hardware Ltd.

7900 Henri-Bourassa Boulevard West

St-Laurent, Quebec H4S 1V4

Telephone: (514) 336-4144

Fax: (514) 832-4002

www.richelieu.com

Richelieu

CEDAN

DISTRIBUTIONS 2020

Simtab
Panneaux Neos

CERAMAX

Menuiserie des Pins Ltée

DAYVAN

BOISERIES
LUSSIER

onward
hardware

LES ATTACHES
Reliable
FASTENERS

Office Implants

European
HARDWARE
DISTRIBUTORS